

**MEMO# 3540**

February 25, 1992

## **CHAIRMAN BREEDEN'S SPEECH ON THE SEC'S SMALL BUSINESS INITIATIVE**

February 25, 1992 TO: BOARD OF GOVERNORS NO. 12-92 SEC RULES MEMBERS NO. 8-92  
TASK FORCE ON SMALL CAPITALIZATION INVESTMENTS RE: CHAIRMAN BREEDEN'S SPEECH  
ON THE SEC'S SMALL BUSINESS INITIATIVE

In a recent speech at the National Press Club, SEC Chairman Breeden described the SEC's small business initiative. He stated that he intended to recommend that the SEC propose rule amendments and seek legislative changes, where necessary, to reduce regulatory burdens and increase flexibility in the raising of capital for small businesses. A copy of the speech is attached. Specifically, Chairman Breeden stated that he will be suggesting amendments to simplify and to expand Regulation A and Rule 504 offerings under the Securities Act of 1933, which regulate the offerings of securities by small companies. In addition, he discussed creating a new form for small companies, rather than small offerings, and a new "10-K Junior" and a "10-Q Junior" to streamline the complexity of the forms to reduce the filing costs for smaller companies. Chairman Breeden also will be seeking changes to the Investment Company Act of 1940. He stated that he will be suggesting, among other things: A. raising the eligible volume of "illiquid" holdings of mutual funds from 10% to 15%; B. allowing investment companies to redeem shares at intervals less frequently than daily; and C. raising current limitations on funds that can be raised by Small Business Investment Companies and Business and Industrial Development Companies. In addition to these rulemaking initiatives, Chairman Breeden discussed legislative changes to the Investment Company Act, such as creating a new type of fund for raising venture capital that would be exempt from registration under the Act so long as all its investors are highly sophisticated individuals or entities. Finally, Chairman Breeden discussed the need for the SEC to assist those who are attempting to develop ways to securitize the receivables of small businesses into debt securities that can be sold into a liquid secondary market. As a first step, he suggested expanding the use of shelf registrations under Rule 415 (which allows for continuous offerings) for investment grade securities backed by non-mortgage assets. In addition, he suggested that the necessary relief under the 1940 Act be crafted to help achieve a coordinated regulatory response to developments in the securitization field. The Institute's Task Force on Small Capitalization Investment has provided the SEC with technical advice on the various alternatives to enhance small capitalization investments by mutual funds. Chairman Breeden's speech incorporated several of the Institute's suggestions and did not include several proposals to which the Institute objected such as modification of the diversity tests in subchapter M of the Internal Revenue Code. We will keep you informed of developments on this matter. Lawrence A. Rogers General Counsel Attachment

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